

Impact of Repo Rate on Indian Bank Profitability

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Abstract

This article empirically investigates the factors determining the impact of repo rate on selected Indian bank profitability this shows how some banks profitability are positively or negatively or not even affected by the change in repo rate. The repo rate of the bank and the bank profitability are taken form 2007 to2016 to assess the impact

KEYWORDS: Repo Rate, Banks Profitability

Introduction

The Reserve Bank of India's most important goal is to maintain economic solidity- significantly moderate and steady inflation of prices in India. The Reserve Bank of India uses economic policy to maintain price solidity and an adequate flow of credit. Rates which the Reserve Bank of India uses for this are the bank rate, repo rate, reverse repo rate and the cash reserve ratio.

The Reserve Bank of India raised repo and reverse repo rates 13 times in previous year. Reserve Bank of India also deregulated savings bank deposit rate with immediate effect. This step was taken to rising inflation of prices in World's third largest financial system. But this Reserve Bank of India's decision to hike short-term loaning and deriving rates could lead to higher interest rates and significantly impact the growth momentum of the financial system.

REPO Interest of Reserve Bank of India is considered to be very phenomenal and significant factor in growth of finance of rapidly developing country India. In the current situation of market of globalization, the worldwide financial markets have led to enhance the volatility in the global financial system. Consequently a numerous researchers, practitioners and policy makers developed special interest in the significantly impact of bank profitability and REPO rate oscillations. The assessment of trade off among the solidity of the market rate of interest and policies becomes more estimated. Beside this type of assessment, diverse policies makers would be able to put suitable weight of the interest rate tactics, with other links. As a result, the discussed paper examines the REPO interest rate effect on bank's profitability in the Indian banking sector by using regression technique. To measure the effect of changes in bank's profitability, it is mandatory to evaluate and assess the overall oscillations of REPO interest rate on the financial system and to represent the implications of interest rate on cash flow. According to our research area, the study focuses the overall significantly impact of interest rate on commercial bank's profitability.

The core objective of this project is to analyze the significant impact of interest rates changes on the profitability of commercial banks being operated in India by examining the financial statements of major banks during 2007 to 2016. Like the efficiency of banking sector is considered most important for economic growth, economic policy implementation and macro-economic solidity. From the past few years, interest spread of banking sector of India is rising.

As a result variations in the REPO rate depress the savings and investment and on the other hand it increases the efficiency of banks' loaning. In this paper REPO rate is an independent variable and bank profitability is a dependent variable. To examine the significantly impact of interest rate changes on the profitability of commercial banks in India, Pearson correlation method and regression analysis is used in this study.

segment has a powerful influence on state economy. Investment of this segment mainly depends on Bank loan.

Objectives

The following are the objectives of the study

1. To study and analyze the impact of the repo rate on Banks' performance.
2. To find the relationship between changes in REPO and Profitability of banks.

Hypotheses

Null Hypothesis: There is no significantly impact of REPO rate on Profitability of Banks.

Alternative Hypothesis: There is a significantly impact of REPO rate on Profitability of Banks

Literature review

Aridityghosh: the subsequent paper tries to analyze and expect gold standard condition of the primary elements answerable for affecting Bombay inventory trade (BSE) in India. we take into consideration the following determinants oil prices, gold charge, cash reserve ratio, good food price inflation of costs, call cash rate, dollar charge, f d i, foreign portfolio funding and foreign exchange reserve (forex). We've taken into consideration the multicollinearity hassle among various macroeconomic variables and attempted to do away with it. To try this evaluation we've got taken monthly foundation database of diverse reasonably priced variables. Then we carried out thing evaluation to find out factors affecting BSE feel. We discovered that dollar charge at the side of "issue 1" i.e; "outside reserve" and "component score 2" i.e; "inflation of prices inertia" is extensively affecting BSE Sensex. Then with the assist of linear programming trouble the optimality conditions of the number one factors are traced out to check the top of the line fee of BSE Sensex.

t. mallikarjunappa and afsal: this paper researches the volatility implications of the introduction of derivatives on stock marketplace volatility in India using the S&P CNX Nifty index as a benchmark. to account for non-constant blunders variance inside the go back collection, a garch model is equipped through incorporating futures and options dummy variables in the conditional variance equation. we find clustering and patience of volatility earlier than and after derivatives, at the same time as listing seems to don't have any stabilization or destabilization outcomes on market volatility. The post derivatives duration indicates that the sensitivity of the index returns to marketplace returns and any day-of-the-week results have disappeared. This is, the character of the volatility styles has altered at some stage in the publish-derivatives duration. stefano (2004) evaluated the outcomes of

monetary coverage on inventory marketplace indices inside the G-7 international locations and Spain the use of the technique of structural vars. a model is expected for every use of a and the effects of economic policy shocks.

Data and Methodology

Source of Data: The present study is based on secondary data collected from the annual reports from the RBI website.

Period of study: This Study covers a period of years from 2007 -2016.

Statistical Tools: An evaluation of factors determining impact of repo rate on Indian based on profit the following statistical tools was used: Summary Statistics, Correlation Analysis, multiple regressions Analysis and Analysis of variance (ANOVA) and Excel-2010 software is used for the analysis.

Research Design

The study sought to examine determinants of banks' Profitability. The study employed a descriptive research. A descriptive study defines a subject by constructing a profile of people, groups or events through tabulation and the collection of data on the frequencies on study variables. A descriptive explore design also ensures absolute explanation of the state of affairs and makes sure that there is no bias in data collection, and enables data collection since a significant target population at a cost effective manner. Therefore, a descriptive design helped to establish the factors that influence the commercial banks Profitability.

Statement of Problem

The Indian banking in recent times has witnessed so much fluctuation in market interest rates, which has called for concern. The market interest rate controversy has been addressed by experts with a lot of pessimism with diverse views regarding commercial banks Profitability and the financial system at large following the return since deregulation of interest rates to pegging in the 2014 budget.

Profitability of banking depends on the ability of the bank to arrange and perform its activities in order to trade off optimally between solvency, liquid cash and Profitability. This is by no means an easy task with the manipulation of several economic variables to the advantage of the bank. The problems associated with this can be expressed in question for as follows.

- 1) Are commercial banks in the country really profitable?
- 2) Do market interest rates affect commercial banks Profitability?
- 3) If yes to what extend are effects and of what dimension, that is wither positive or negative.

The focus of this study is to find out the significantly impact of REPO interest rate changes on the Profitability of selected commercial banks in India.

Data analysis and Interpretation

Secondary Data of Reserve Bank of India REPO RATE and Top Five Bank's Profitability

| Financial Year | Operating REPO Rate | Profit Brought Forward (AS PER THEIR PUBLISHED BALANCE SHEET AND P & L Account in their Official Website) | | | | |
|----------------|---------------------|---|--------|-------|-------|--------|
| | | SBI | PNB | ICICI | HDFC | CITI |
| 2012-13 | 8.00% | 3.40% | 11.40% | 4.25% | 3.00% | 11.25% |
| 2013-14 | 7.75% | 3.40% | 7.70% | 4.02% | 3.20% | 11.25% |
| 2014-15 | 7.63% | 3.20% | 6.70% | 3.75% | 3.30% | 11.50% |
| 2015-16 | 7.00% | 3.20% | -7.60% | 3.65% | 4.40% | 10.25% |
| 2016-17 | 6.25% | 3.20% | 1.80% | 3.45% | 4.30% | 9.00% |
| 2017-18 | 6.00% | 4.00% | 1.65% | 4.15% | 4.50% | 12.30% |
| (Till Q3) | | | | | | |

Pearson Correlation Analysis between Operating REPO Rate vs.Diverse Banks

| Operating Rate | REPO | Pearson Correlation | P Value | Inference |
|----------------|------|---------------------|---------|--|
| SBI | | -0.4468 | > 0.05 | Negatively Correlated, but not significant |
| PNB | | 0.5850 | > 0.05 | Positively Correlated, but not significant |
| ICICI | | 0.3461 | > 0.05 | Positively Correlated, but not significant |
| HDFC | | -0.9229 | < 0.05 | Negatively Correlated, but significant |
| CITI | | 0.2090 | > 0.05 | Positively Correlated, but not significant |

Anova: Single Factor

SUMMARY

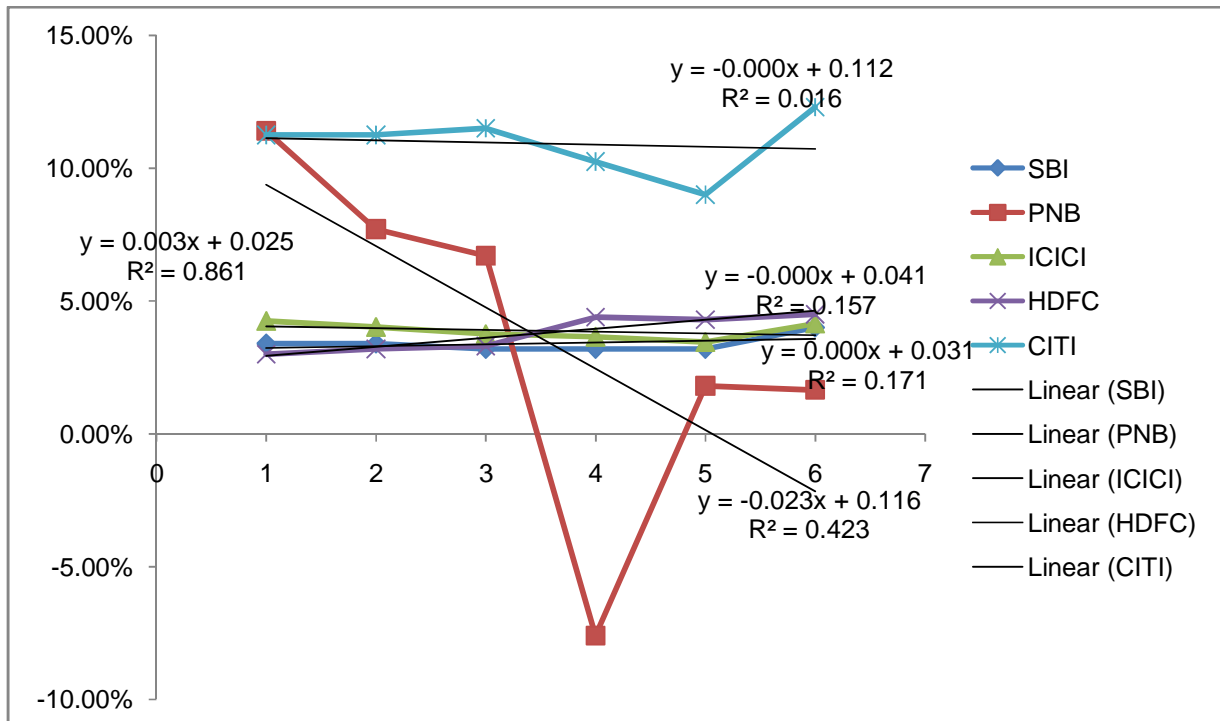
| Groups | Count | Sum | Average | Variance |
|--------|-------|-------|---------|----------|
| SBI | 6 | 0.204 | 0.0340 | 0.0000 |
| PNB | 6 | 0.217 | 0.0361 | 0.0044 |
| ICICI | 6 | 0.233 | 0.0388 | 0.0000 |
| HDFC | 6 | 0.227 | 0.0378 | 0.0000 |
| CITI | 6 | 0.656 | 0.1093 | 0.0001 |

ANOVA

| Source of Variation | SS | df | MS | F | P-value | F crit |
|---------------------|----------|----|----------|----------|----------|----------|
| Between Groups | 0.025362 | 4 | 0.006340 | 6.902399 | 0.000691 | 2.758710 |
| Within Groups | 0.022965 | 25 | 0.000919 | | | |
| Total | 0.048327 | 29 | | | | |

Inference

There is a significant difference between Profitability of Top Five Banks.



| <i>Regression Statistics</i> | |
|------------------------------|--------|
| Multiple R | 0.999 |
| R Square | 0.999 |
| Adjusted R Square | -0.005 |
| Standard Error | 0.006 |
| Observations | 6 |

| ANOVA | | | | |
|------------|-----------|-----------|-----------|----------|
| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> |
| Regression | 5 | 0.031 | 0.006 | 197.741 |
| Residual | 1 | 0.000 | 0.000 | |
| Total | 6 | 0.031 | | |

| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i> | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |
|-------|---------------------|-----------------------|---------------|----------------|------------------|------------------|--------------------|--------------------|
| SBI | -6.413 | 2.294 | -2.795 | 0.219 | -35.566 | 22.740 | -35.566 | 22.740 |
| PNB | 0.091 | 0.093 | 0.977 | 0.507 | -1.095 | 1.277 | -1.095 | 1.277 |
| ICICI | 4.214 | 1.340 | 3.145 | 0.196 | -12.813 | 21.241 | -12.813 | 21.241 |
| HDFC | 1.623 | 1.014 | 1.601 | 0.355 | -11.255 | 14.501 | -11.255 | 14.501 |
| CITI | 0.557 | 0.463 | 1.205 | 0.441 | -5.322 | 6.437 | -5.322 | 6.437 |

Inferences

1. As the P Value in individual analysis, is more than 0.05 everywhere, it is concluded that there is no significant relationship between REPO Rates and Profitability of Top 5 Banks.
2. As the P Value in regression analysis is less than 0.05, there is a significant trend in regression model with respect to Profitability of banks.

Conclusion

1. The Profitability of Bank isn't always immediately depends on reserve bank of India repo price changes
2. The Profitability of bank is depends on many variables together with bank prices, recoverable and unrecoverable debts, deposits and investments and so forth.
3. Reserve Bank of India repo fee is likewise one of the impartial variable that Profitability relies upon but it isn't most effective variable

Suggestion

1. Profitability of bank is dependent variable and depends on other variables and repo charge; Profitability will increase whilst other expenses and recoveries of bad money owed will take place.
2. it's far recommended that banks must make their regulations regarding unrecovered debts and different horrific debts.

Références :

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